

## Xiang Junbo: Exclusive interview with the *People's Daily*

Xiang Junbo, Deputy Governor of the People's Bank of China, in a recent interview with a reporter of the *People's Daily*.

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**Reporter:** The establishment of the People's Bank of China (PBC) Shanghai Head Office has drawn broad attention from the financial circle and the media. Thank you for having this interview with us to answer questions of common concern.

**Xiang:** Thank you. As you said, the establishment of the PBC Shanghai Head Office has been widely covered by the media. I have read the relevant reports and commentaries. I would like to thank the press for their concern and support for the PBC Shanghai Head Office.

**Reporter:** Since China adopted the reform and opening-up policy, the central bank has undergone several institutional changes. In 1984, the State Council decided to have the PBC act solely as a central bank. In 1995, *the law of the People's Republic of China on the People's Bank of China* legally confirmed the central bank status of the PBC. In 1998, the PBC dismantled its provincial branches and set up regional branches. In 2003, the banking supervisory function was transferred from the PBC to a separate regulatory institution. Does the establishment of the PBC Shanghai Head Office constitute another important institutional reform of the PBC? And what impact it will have on China's financial sector?

**Xiang:** Since the reform and opening up and with the gradual improvement of the socialist market economy, the central bank has been undergoing institutional changes. The establishment of the PBC Shanghai Head Office is an important step to improve the central bank system and to strengthen the role of the central bank in macroeconomic management. With the Shanghai Head Office established, the PBC will enhance its macro-adjustment and service capability by facilitating the development of the financial markets and financial center. As Governor Zhou Xiaochuan pointed out at the inauguration ceremony of the PBC Shanghai Head Office, as the economy gets increasingly market-oriented and transportation and communication further improve, cross-regional economic activities will increase, and financial markets and financial services will increasingly benefit from economy of scale. The development of financial center indicates strong international competitiveness and significant improvement in the efficiency of financial services. The financial sector including the central bank needs to improve their functions by focusing on the development of financial markets and financial centers.

Shanghai has become the hub to various financial institutions. The national unified inter-bank lending market, bond market and foreign exchange market are all located in Shanghai. Shanghai also has a stock exchange, a commodity exchange and a gold exchange. Building Shanghai international financial center has been set as a national strategy. The PBC Shanghai Office has been established against such a background.

The PBC Shanghai Head Office has been set up with a view to further improve the decision-making and operating system of the central bank, strengthen its macroeconomic management capability, take advantage of the first-hand contacts with the financial markets, and enable the central bank to better serve the financial markets. It will also reinforce the role of Shanghai as a domestic financial center and promote the development of Shanghai as an international financial center.

**Reporter:** It is speculated by some media that the establishment of PBC Shanghai Office indicates that the central bank intends to set up organizational structure, decision-making and operating systems similar to those of the Federal Reserve System of the United States. Moreover, some people think that the PBC Shanghai Head Office will play a role similar to that of the Federal Reserve Bank of New York. What are your comments in this regard?

**Xiang:** It's true that in establishing the PBC Shanghai Head Office, we have drawn experiences from the Federal Reserve Bank of New York. Nevertheless, given that China and the United States differ in political systems, traditions and cultures, the PBC Shanghai Head Office has been established taking into account China's specific situation. As an integral part of the PBC Headquarters, the PBC Shanghai Head Office will perform its functions under the guidance and authorization of the PBC Headquarters. In particular, it will perform its functions in the following major areas: conducting open market operations in accordance with the operating targets set the by the Headquarters; conducting

rediscount operations for the commercial banks and other institutions engaging in bill business in Shanghai; regulating the inter-bank markets, tracking the development of financial markets and guiding the innovation of financial products; assessing regional financial stability and financial security; collecting, compiling and analyzing the financial market data; conducting research on monetary policy operation, the development of financial markets and the construction of financial centers; engaging in regional financial exchange and cooperation and conducting international financial business; managing part of the state foreign exchange reserves and gold reserves; and carrying out some of the businesses currently conducted by the PBC Shanghai Branch.

The PBC Shanghai Head Office will administer the PBC branches and sub-branches currently under the jurisdiction of PBC Shanghai Branch, and administer and coordinate the work of some of the enterprises and institutions in Shanghai. Entities under direct administration by the PBC Shanghai Head Office include China Foreign Exchange Trade System, China Anti-Money Laundering Monitoring and Assessing Center, the PBC Data Processing Center, and the PBC Credit Information Service Center. The PBC Shanghai Head Office will also coordinate the work of China UnionPay and Shanghai Gold Exchange.

Our goal is to build Shanghai Head Office into a platform for the operation of monetary policy and the monitoring of financial markets, an important window for international exchange and cooperation, and a center for some financial services and related research and development work.

**Reporter:** Just now you mentioned the goal you are seeking to achieve in building the Shanghai Head Office. How will the central bank be operated so that it can take advantage of the close contacts with the markets?

**Xiang:** In a market economy, the central bank mainly relies on indirect instruments to implement monetary policy. It adjusts market liquidity and interest rates by conducting transactions in the financial markets, and transmits monetary policy signals to the financial sector through the financial markets, thus influences the output and overall price level of the real sector. Indirect monetary policy instruments are mainly open market operations supplemented by other means such as rediscount window.

Market-based monetary policy operations rely on accurate judgment of market development. At present, China's financial markets are centered in Shanghai. By establishing a Head Office and conducting monetary operations in Shanghai, the central bank can enjoy several benefits. First, the staff conducting such operations will be able to formulate optimal strategy by monitoring market development in real time and make timely judgment on market trend. Second, timely exchange of information with market organizers and participants will help form a correct market expectation. Third, the establishment of the Shanghai Head Office will enable the central bank to timely respond to abnormal movements of the market. This will contribute to the stable operation of the market.

**Reporter:** To provide better services to the market, how will the PBC Shanghai Head Office improve its capacity for monitoring and managing the market? And what roles will it play in promoting the development of money market and foreign exchange market and the innovation of financial products?

**Xiang:** One of the important roles of the PBC is regulating the inter-bank money market and foreign exchange market. After transferring its function of monitoring and managing the financial markets to the Shanghai Head Office, thus getting closer contacts with the markets, the PBC will be able to better understand the need of the market, and formulate and revise relevant rules accordingly. It will also be able to conduct real-time and on-site monitoring of market transactions, and intervene in the market as necessary. Moreover, closer contacts with the markets will facilitate the timely collection of market data, which will enable the central bank to formulate and implement monetary policy more effectively.

As to promoting market development and product innovation, we will take the following measures. First, more participants will be allowed to enter the inter-bank market and the market will be further expanded with a view to build the inter-bank market into a unified and well-developed market. Second, steps will be taken to encourage the adoption of new ways of trading. Third, the development of new products, including futures, options, forwards and swaps, will be encouraged to enable market participants to better hedge market risks. Fourth, to better serve market participants, the PBC will make continuous efforts to improve market regulations and rules to guide market development.

**Reporter:** In a visit to Shanghai in July 2004, President Hu Jintao stressed the importance of Shanghai in serving the whole country, and called for efforts to develop Shanghai into an international economic, financial, trade and transportation center. How do you see the relationship between the establishment of PBC Shanghai Head Office and the development of Shanghai international financial center?

**Xiang:** To build Shanghai into an international financial center is an important strategic decision made by the Central Party Committee and the State Council. Mr. Deng Xiaoping pointed out in the early 1990s that China must rely on the development of Shanghai to raise its international status in financial affairs. In 1992, Mr. Jiang Zemin pointed out in the report of the 14th CPC National Congress that accelerated efforts should be made to build Shanghai into an international economic, financial and trade center to promote the economic development of Yangtze River Delta and the whole Yangtze River valley. In a visit to Shanghai in July 2004, President Hu Jintao called for continued efforts to develop Shanghai into an international economic, financial, trade and transportation center.

International experiences show that the establishment of central bank headquarters and the development of international financial centers beneficially promote each other. International financial centers have emerged in places where trade and transportation activities are centered and where the country's capital and its central bank are located. The emergence of Amsterdam, London, Tokyo, Hong Kong, Singapore and New York as international financial centers reflected part or all of the above features. Although Frankfurt is not a port city like Hamburg or Dusseldorf, it finally replaced Berlin as Germany's financial center, partly because the central bank of Germany, the Deutsche Bundesbank, is located there. The European Central Bank has also been established in Frankfurt, conducting unified monetary policy and inter-bank fund clearance and settlement within Europe. This has in turn strengthened Frankfurt's status as an international financial center in the European Continent. Similarly, although Zurich is not the capital of Switzerland, it has developed into an international financial center partly because the central bank was previously located there.

The establishment of the PBC Shanghai Head Office is expected to produce similar effects. On the one hand, by improving monetary policy operation and providing better services to the market, we expect that more domestic financial institutions will move some of their businesses or departments to Shanghai and more professionals will be attracted to work in Shanghai. On the other hand, with expanded exchange and cooperation of the PBC Shanghai Head Office with other central banks and financial organizations, Shanghai is expected to play a larger role in the financial affairs in the Asian-Pacific region, which will help accelerate the development of Shanghai as an international financial center.

**Reporter:** Could you briefly describe the internal organizational structure of the PBC Shanghai Head Office?

**Xiang:** The PBC Shanghai Head Office consists of 7 functional departments and 3 supporting departments to ensure the effective performance of duties. Functional departments include Open Market Operations Department, Financial Market Management Department, Financial Stability Department, Statistics and Research Department, International Department, Financial Services Department and Foreign Exchange Management Department. The 3 supporting departments are the General Management Department, Human Resources Management Department and Staff Disciplinary Department.

**Reporter:** How will the PBC Shanghai Branch be consolidated with the PBC Shanghai Head Office? Will the PBC Shanghai Branch still exist after the consolidation? And do you have a timetable for the consolidation?

**Xiang:** According to the functions designated to the PBC Shanghai Head Office, it will be established based on the existing Shanghai Branch. The businesses currently conducted by the Shanghai Branch will partly be transferred to the Open Market Operations Department, Financial Market Management Department, Financial Stability Department, Statistics and Research Department, and International Department, respectively, and partly be taken over by the Financial Services Department. The foreign Exchange business will be conducted by the Foreign Exchange Management Department.

Meanwhile, to maintain business consistency, the PBC Shanghai Branch and the State Administration of Foreign Exchange (SAFE) Shanghai Branch will still exist in nominal sense after the consolidation. Since the establishment of the PBC Shanghai Head Office involves the transfer of some functions from the Headquarters, the restructuring of the PBC Shanghai Branch and the reallocation of staff, it will take some time, but the consolidation will proceed in a steady and orderly manner. We will make active and steady efforts to put the new institution and the new system into operation at an early date.

**Reporter:** How will the PBC Shanghai Head Office and the Beijing Headquarters coordinate with each other?

**Xiang:** As I mentioned just now, as an integral part of the PBC Headquarters, the PBC Shanghai Head Office will perform its functions under the guidance and authorization of the PBC Headquarters.

The Headquarters is mainly responsible for policy formulation and decision making, while the Shanghai Head Office will act as an operating center for implementing the policies. A Deputy Governor and an Assistant Governor of the Headquarters will act as President and Deputy President of the PBC Shanghai Head Office respectively. For some operations that have to be conducted with the authorization of the Headquarters, heads of relevant departments of the Headquarters will take concurrent posts at the Shanghai Head Office. In addition, remote office automation systems will be set up linking the Headquarters and the Shanghai Head Office. The application of modern telecommunication technologies will significantly shorten the time lag between the formulation and implementation of policies.

**Reporter:** Is it an important task for the PBC to ensure that the Shanghai Head Office employ qualified staff? Through which channels will the Shanghai Head Office recruit personnel?

**Xiang:** Yes, we need a large number of qualified people to work in the Shanghai Head Office. In 2003, Governor Zhou Xiaochuan pointed out in the PBC working report that the PBC will seek to build a team of staff with high learning spirit, strong research ability, rich professional knowledge, pragmatic working style and creative spirit. A broad-based staff team is needed to achieve this goal. Besides taking advantage of the rich human resources in Shanghai, we will also supply personnel to the Shanghai Head Office through the following channels. First, some staff from the Headquarters will be selected to work in the Shanghai Head Office. Second, there will be regular transfer of staff from the Headquarters to the Shanghai Head Office to work for a specified period of time. Third, some young staff from the PBC branches and sub-branches will be sent to the Shanghai Head Office. Fourth, senior professionals with related working experiences and academic backgrounds will be hired both domestically and from overseas. We will provide equal opportunities for all staff, and create a favorable environment to enable them to fully tap their potentials.

**Reporter:** Some people describe you as a scholar-styled leader. You have academic background in many areas including finance, economics, audit and laws. It is said that you are also interested in writing TV plays in your spare time. How will such academic background and the experiences in auditing benefit your work in the Shanghai Head Office? And what implications will the establishment of the Shanghai Head Office, a new play that has just started, have on China's entire financial industry?

**Xiang:** I must admit that I am still a new hand in the financial sector. Although the knowledge I learned in the university on finance and western economics is relevant to the work I currently do, I still need to make efforts to recharge myself with new knowledge and to adapt to the new environment. I will try my best to shorten this break-in period. Of course, diversified academic background enables me to look upon issues from different perspectives. And in the formulation of macroeconomic policies, I will benefit from my front-line working experiences. I will seek to make great contributions to the work of the PBC Shanghai Head Office.

As writing a TV play, managing the financial system is also an art. With the establishment and further development of the PBC Shanghai Head Office, we will be able to fully take the advantage of the first-hand contacts with the financial markets and to more effectively make use of financial resources.

Establishing and strengthening the Shanghai Head Office is a new task for us. As China's socialist market economic system further improves, we need to make breakthroughs in the financial sector, and bring the performance of China's financial industry up to high international standards. To achieve these goals, I and all staff in the PBC Shanghai Head Office will make our best efforts to contribute to the work of Shanghai Head Office and to the development of China's financial industry.